

**CITY OF PELLA, IOWA**

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2012**



**City of Pella, Iowa**  
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**June 30, 2012**

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**City of Pella, Iowa  
City Officials  
Year Ending June 30, 2012**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Before January, 2012</b>		
Darrell D. Dobernecker	Mayor	January, 2012
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2014
Tony Bokhoven	Council Member	January, 2012
James Mueller	Council Member	January, 2012
Richard Savery	Council Member	January, 2012
Bruce Schiebout	Council Member	January, 2014
Dan Vander Beek	Council Member	January, 2014
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2012
Ronda Brown	City Clerk	January, 2012
<b>After January, 2012</b>		
James Mueller	Mayor	January, 2016
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2014
Dave Vander Horst	Council Member	January, 2016
Harold Van Stryland	Council Member	January, 2016
Larry J. Peterson	Council Member	January, 2016
Bruce Schiebout	Council Member	January, 2014
Dan Vander Beek	Council Member	January, 2014
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2014
Ronda Brown	City Clerk	January, 2014

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 27, 2012 on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5-10 and 48-51 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

December 27, 2012

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

## **2012 FINANCIAL HIGHLIGHTS**

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$105,442,257 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$41,624,536.
- Assets of business type activities exceeded liabilities by \$63,817,721.
- The revenues of the governmental activities exceeded expenses by \$2,966,956.
- Within the City's business-type activities, revenues exceeded expenses by \$8,016,228. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2012, the general fund had an unrestricted fund balance of \$2,051,767 or working capital of nearly 44% of annual expenditures.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

**The government-wide financial statements are divided into two categories:**

**Governmental activities** - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

**Business type activities** - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue TIF-Pella Business Corridor fund, debt service fund, and capital project fund, all of which are considered to be major funds. Data from the other twenty governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

**Proprietary funds** can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements with greater detail.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$105,442,257 at the close of the most recent fiscal year.

The most significant portion of the city's net assets (83.73%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending. A portion of the City's net assets (3.82%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$13,132,044 may be used to meet the City's ongoing obligations to citizens and creditors.



**CITY OF PELLA'S NET ASSETS**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Current and other assets	12,321,820	11,245,320	15,190,370	13,378,562	27,512,190	24,623,882
Capital assets	39,510,448	39,072,480	57,499,861	61,402,648	97,010,309	100,475,128
Total assets	51,832,268	50,317,800	72,690,231	74,781,210	124,522,499	125,099,010
Current Liabilities	6,700,685	7,249,589	4,096,951	3,831,247	10,797,636	11,080,836
Long-term liabilities	3,507,047	4,410,631	4,775,559	15,148,470	8,282,606	19,559,101
Total Liabilities	10,207,732	11,660,220	8,872,510	18,979,717	19,080,242	30,639,937
Net assets:						
Invested in capital assets, net of related debt	35,726,179	34,482,112	52,556,521	44,789,521	88,282,700	79,271,633
Restricted assets	3,587,034	2,157,468	440,479	2,504,776	4,027,513	4,662,244
Unrestricted assets	2,311,323	2,018,000	10,820,721	8,507,196	13,132,044	10,525,196
Total net assets	\$ 41,624,536	\$ 38,657,580	\$ 63,817,721	\$ 55,801,493	\$ 105,442,257	\$ 94,459,073

**Analysis of Changes in Net Assets for the Year ended June 30,**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>						
Program revenues:						
Charges for service	\$ 620,474	\$ 530,645	\$ 22,550,412	\$ 22,203,449	\$ 23,170,886	22,734,094
Operating grants, contributions	1,056,467	1,086,082	7,878	20,186	1,064,345	1,106,268
Capital grants, contributions	893,637	553,820	-	-	893,637	553,820
General revenues:						
Property taxes	3,804,765	3,740,164	-	-	3,804,765	3,740,164
Local option taxes	1,350,972	1,178,373	-	-	1,350,972	1,178,373
TIF	1,500,001	1,367,004	-	-	1,500,001	1,367,004
Other Taxes	452,189	417,145	-	-	452,189	417,145
Grants & contributions	47,027	42,128	-	-	47,027	42,128
Payment in lieu of taxes	440,031	443,836	-	-	440,031	443,836
Investment earnings	19,933	17,627	82,657	88,788	102,590	106,415
Miscellaneous	-	125	312,296	140,768	312,296	140,893
Gain(Loss) on sale of assets	(14)	13,425	9,809,279	4,030	9,809,265	17,455
Transfers	241,444	241,843	(241,444)	(241,843)	-	-
Total revenues	10,426,926	9,632,217	32,521,078	22,215,378	42,948,004	31,847,595
<b>Expenses</b>						
Program expenses:						
General government	627,040	619,217	-	-	627,040	619,217
Public Safety	1,910,503	1,835,144	-	-	1,910,503	1,835,144
Public Works	1,808,141	1,806,281	-	-	1,808,141	1,806,281
Culture & Recreation	2,217,756	2,141,407	-	-	2,217,756	2,141,407
Community & Economic Development	580,694	670,644	-	-	580,694	670,644
Facilities & Acquisition	161,725	164,012	-	-	161,725	164,012
Long-term debt and interest cost	154,111	178,906	-	-	154,111	178,906
Water			2,036,593	1,934,975	2,036,593	1,934,975
Wastewater			2,087,578	2,031,855	2,087,578	2,031,855
Sanitation			534,752	518,840	534,752	518,840
Electric			19,845,927	17,460,090	19,845,927	17,460,090
Internal Service					-	-
Total expenses	7,459,970	7,415,611	24,504,850	21,945,760	31,964,820	29,361,371
Change in net assets	\$ 2,966,956	2,216,606	\$ 8,016,228	269,618	\$ 10,983,184	2,486,224

## FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$5,794,997 at June 30, 2012. This was an increase of \$1,726,871 from the prior year and was due to the building of revenues for future capital projects. A summary of each of the government major fund balances is as follows:

### General Fund

The general fund's balance increased by \$70,375 in Fiscal Year 2012. As a result, our fund balance increased to \$2,055,887 which represents approximately 44% of annual expenditures. The increase was attributed to an operational savings at the departmental levels and an increase in revenues associated with user fees.

### Debt Service Fund

The debt service fund's balance of \$5,465 can be utilized to offset future general obligation principal and interest payments. During the year the fund balance decreased by \$544.

### Special Revenue TIF-Pella Business Corridor Fund

The Pella Business Corridor TIF Fund had a fund balance of \$1,260,356 at June 30, 2012. During the year the fund balance increased by \$432,252 and will be dedicated towards future capital projects.

### Capital Projects Funds

The capital project funds are comprised of one main fund and five smaller funds which are as follows:

**Capital Facilities Fund** had a fund balance of \$150,731 at June 30, 2012. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

**Other Capital Facility Funds** had a total fund balance of \$0 at June 30, 2012.

### Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements with greater detail.

The combined net assets of the enterprise funds at June 30, 2012 totaled \$63,817,721 of which \$10,820,721 is unrestricted. Overall, net assets for the enterprise funds increased by \$8,016,228 largely due to selling the Electric Department's ownership in Walter Scott 4.

The net assets of internal service funds, which is comprised of the City's health insurance trust fund increased from \$720,614 to \$749,608. The majority of the increase was due to lower than expected claims for the year.

## BUDGETARY HIGHLIGHTS

The FY 12 budget was amended on December 20, 2011 for the following reasons:

- The FY 11-12 Budget contained estimated totals for the Electric Utility that were based on the FY 10-11 Budget. Estimated totals were used because a separate budget session is conducted for the utility after Council formally approves the City Budget for all other City funds. The separate session is needed so Council can provide more attention to the Electric Utility and it also gives staff additional time to form estimates, which enhances the reliability of the budget numbers. Therefore, this amendment is simply adjusting the FY 11-12 Budget to include the electric budget that was approved by Council on December 20, 2011. This request contains a fund balance decrease of \$820,389 which is attributed to using \$2.2 million of restricted reserve funds for the early retirement of \$12.1 million of Electric Utility Revenue Debt.
- Expenditures were increased \$24,000 for consulting on a way finding signage plan.
- Expenditures were increased \$81,210 for a screw pump at the wastewater plant that failed entirely.
- Expenditures were decreased \$12,038 for opening a 36 inch pipe partially plugged near the wastewater treatment plant.
- Expenditures were increased \$12,471 for the installation of a new SCADA system at the wastewater treatment plant.

- Expenditures were increased \$42,000 to cover a loss in grant funding for the Drug Task Force.
- Expenditures were increased \$10,580 for the painting of the Molengracht Canal.
- Expenditures were decreased \$12,000 for only needing to repaint the river at the Aquatic Center instead of the main pool.
- Expenditures were increased \$17,216 for several small budget amendment requests.
- The remaining \$569,342 in expenditure increases were due to projects and items previously budgeted in the FY 10-11 budget whose expenses were not incurred until FY 11-12.
- The July 1, 2012 estimated beginning fund balance used for the budget was decreased by \$806,370 to match the actual ending fund balance at June 30, 2012.

None of the above variations are expected to have a significant effect on future services or liquidity.

## **CAPITAL ASSETS**

### **Capital Assets**

Major construction projects and associated expenses for the year included the following:

#### **Governmental Activities**

Airport Runway Rehabilitation \$193,569  
North Main Street Replacement was completed \$950,584.81  
Electrical and Mechanical renovations at the indoor pool \$201,707  
Purchase of a new 1-ton truck for Public Works \$40,206  
University St Reconstruction by the Pella High School \$308,378

#### **Water Fund**

Finish replacing water mains under Main Street \$28,552  
Ranny Well Rehabilitation \$126,680  
Replace a grit auger & trough in the lime slaker \$56,200

#### **Wastewater Fund**

Finish replacing sewer mains under Main Street \$93,703  
IDNR bypass mandate improvements \$499,344  
Finish work on replacing two digester lids at the plant \$759,976  
Repair a screw pump \$81,563

#### **Electric Fund**

Finish work on the Diesel Plant stack modification \$540,105  
Finish work on the Electric SE switching station \$3,734,788  
Begin work on the Clark Street Substation \$952,345

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

## **DEBT ADMINISTRATION**

At the close of fiscal year ended June 30, 2012, the City had bonds outstanding of \$8,887,767. The City maintains an Aa3 rating from Moody's Investor Services on all its general obligation debt and an A2 on electric revenue debt.

The City approved a long-term power supply contract with Missouri River Energy Services (MRES) beginning April 1, 2012. The agreement also included the sale of the City's 1.33% ownership share of Walter Scott Unit 4 for \$26.8 million. With the proceeds of Walter Scott 4, the City defeased three revenue bonds for a total of \$12.1 million. As a result, the City's Electric Utility has no long-term debt which will provide the City with considerable financial flexibility in the future.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2010. The current general obligation debt limitation for the City is \$34,271,086 and at June 30, 2012 there was \$3,935,000 of outstanding general obligation debt. Therefore the city's available debt margin is \$30,336,086 or 88.52%.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Due to the national economic recession, the City of Pella has seen consumption decreases for our major utilities over the past few years. These decreases, coupled with infrastructure needs and unfunded mandates from the Iowa Department of Natural Resources (IDNR), will lead to necessary wastewater rate increases in the near future to fully fund the mandates.

Likewise, the current economic recession has led to stagnant taxable property valuations in the community. While we have not seen increases in property valuations, the City is fortunate not to have experienced decreases in its property tax base as many communities in Iowa have over the last few years. It is also important to note, the State of Iowa continues to experience financial problems as a result of the recession. It also seems likely that some of the State's budget problems will be passed along to local governments. These could include cuts to shared revenue streams such as road use taxes; library and recreation funding grants; and public safety grants. In addition, the City could also face unfunded mandates or forced property tax cuts. Regardless of which area is targeted, it is likely that the State's financial problems will impact the City of Pella's budget.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2013 Budget:

### **Property Taxes**

The City was able to maintain its property tax rate in Fiscal Year 2012 at \$10.20/\$1,000 of taxable valuation. In addition, there will be no change in the rate for Fiscal Year 2013.

### **Electric Rates**

As a part of the City's transition to Missouri River Energy Services, the City's electric utility did a cost-of-service study after the FY 2013 budget was approved to determine new rates for the utility. The FY 12-13 budget is based on average electric rates that were charged in FY 10-11 and the first four months of FY 11-12, which is computed to be \$87 per MWH. It is important to note, based on the cost-of-service study, some rate payers will pay a higher rate and some rate payers will be charged a lower rate than what they are currently charged, however, the overall revenue will not increase. The new rates will go into effect in the spring of 2013.

### **Water Rates**

For Fiscal Year 2013, there was no rate increase in water rates. However, if Council proceeds with implementation of the City's \$12.6 million water supply plan, water rates will need to be increased approximately 20-30% by June 30, 2017 to fund the plan.

### **Wastewater Rates**

For Fiscal Year 2013, a 13% wastewater rate increase will be phased in due to the mandate by the IDNR to eliminate all bypasses in our sanitary sewer collection system. The increase in rates will occur in two increments commencing in February 2013 and July 2013.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be directed to the City Administrator, 825 Broadway Street, Pella, Iowa 50219.

## **Financial Statements**

**City of Pella, Iowa**  
**Statement of Net Assets**  
**June 30, 2012**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 3,079,983	11,306,864	14,386,847
Receivables:			
Property tax:			
Delinquent	43,439	-	43,439
Succeeding year	3,853,126	-	3,853,126
Tax increment financing:			
Delinquent	-	-	-
Succeeding year	1,500,004	-	1,500,004
Local option sales tax	155,981	-	155,981
Accounts (net of allowance for uncollectibles)	6,174	2,548,462	2,554,636
Accrued interest	917	4,030	4,947
Due from other governments	62,103	-	62,103
Inventories	-	722,759	722,759
Deposits	3,000	70,000	73,000
Prepaid expenses	25,729	-	25,729
Restricted assets:			
Cash and pooled investments	3,587,034	440,479	4,027,513
Deferred charge (issuance costs)	4,330	97,776	102,106
Capital assets(net of accumulated depreciation)	39,510,448	57,499,861	97,010,309
<b>Total assets</b>	<b>51,832,268</b>	<b>72,690,231</b>	<b>124,522,499</b>
<b>Liabilities</b>			
Excess of warrants over bank balance	\$ 6,317	-	6,317
Accounts payable and accrued liabilities	235,599	3,233,052	3,468,651
Salaries and benefits payable	177,239	60,020	237,259
Deposits	600	89,942	90,542
Accrued interest payable	11,686	12,723	24,409
Deferred revenue:			
Succeeding year property tax	3,853,126	-	3,853,126
Succeeding year tax increment financing	1,500,004	-	1,500,004
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	820,000	-	820,000
Revenue bonds payable	-	602,767	602,767
Unamortized bond premium	13,118	-	13,118
Compensated absences	82,996	98,447	181,443
Portion due or payable after one year:			
General obligation bonds	3,115,000	-	3,115,000
Revenue bonds payable (net of unamortized discounts)	-	4,340,573	4,340,573
Unamortized bond premium	25,143	-	25,143
Compensated absences	315,935	393,789	709,724
Net OPEB liability	50,969	41,197	92,166
<b>Total liabilities</b>	<b>10,207,732</b>	<b>8,872,510</b>	<b>19,080,242</b>

Exhibit A

**City of Pella, Iowa**  
**Statement of Net Assets**  
**June 30, 2012**

*Continued from previous page.*

**Net Assets**

	Primary Government		
	Governmental	Business Type	
	Activities	Activities	Total
Invested in capital assets, net of related debt	35,726,179	52,556,521	88,282,700
Restricted for:			
Expendable:			
Debt service and improvements	-	254,000	254,000
Special Purposes	3,442,914	-	3,442,914
Other	-	116,479	116,479
Non-expendable:			
Permanent Trust	140,000	-	140,000
Prepaid expenditures	1,120	-	1,120
Deposits	3,000	70,000	73,000
Unrestricted	2,311,323	10,820,721	13,132,044
<b>Total net assets</b>	<b>\$ 41,624,536</b>	<b>63,817,721</b>	<b>105,442,257</b>

See notes to financial statements.

## Exhibit B

**City of Pella, Iowa**  
**Statement of Activities**  
**Year ended June 30, 2012**

	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
<b>Functions/Programs</b>				
Governmental activities:				
Public safety	\$ 1,910,503	70,857	22,616	-
Public works	1,808,141	62,591	983,768	-
Culture and recreation	2,217,756	404,132	50,083	-
Community and economic development	580,694	2,711	-	-
General government	627,040	80,183	-	-
Long-term debt costs and interest	154,111	-	-	-
Facilities and acquisition	161,725	-	-	893,637
Total governmental activities	7,459,970	620,474	1,056,467	893,637
Business type activities:				
Water	2,036,593	2,226,629	-	-
Wastewater	2,087,578	1,786,980	-	-
Sanitation	534,752	617,518	-	-
Electric	19,845,927	17,919,285	7,878	-
Total business type activities	24,504,850	22,550,412	7,878	-
Total primary government	\$ 31,964,820	23,170,886	1,064,345	893,637
General Revenues:				
Taxes:				
Property taxes				
Local option sales tax				
Tax increment financing				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain(loss) on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year				
Net assets end of year				
See notes to financial statements.				



Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,817,030)	-	(1,817,030)
(761,782)	-	(761,782)
(1,763,541)	-	(1,763,541)
(577,983)	-	(577,983)
(546,857)	-	(546,857)
(154,111)	-	(154,111)
731,912	-	731,912
(4,889,392)	-	(4,889,392)
-	190,036	190,036
-	(300,598)	(300,598)
-	82,766	82,766
-	(1,918,764)	(1,918,764)
-	(1,946,560)	(1,946,560)
(4,889,392)	(1,946,560)	(6,835,952)
3,804,765	-	3,804,765
1,350,972	-	1,350,972
1,500,001	-	1,500,001
452,189	-	452,189
47,027	-	47,027
440,031	-	440,031
19,933	82,657	102,590
-	312,296	312,296
(14)	9,809,279	9,809,265
241,444	(241,444)	-
7,856,348	9,962,788	17,819,136
2,966,956	8,016,228	10,983,184
38,657,580	55,801,493	94,459,073
\$ 41,624,536	63,817,721	105,442,257

## Exhibit C

**City of Pella, Iowa**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Total
<b>Assets</b>						
Cash and pooled investments	\$ 2,326,343	1,260,356	3,161	119,307	2,208,039	5,917,206
Receivables:						
Property tax:						
Delinquent	34,818	-	2,304	-	6,317	43,439
Succeeding year	2,983,762	-	274,073	-	595,291	3,853,126
Tax increment financing:						
Delinquent	-	-	-	-	-	-
Succeeding year	-	1,500,000	-	-	-	1,500,000
Local option sales tax	-	-	-	-	155,981	155,981
Accounts receivable, miscellaneous	2,787	-	-	-	3,387	6,174
Accrued interest	598	-	-	47	84	729
Due from other governments	8,059	-	-	54,044	-	62,103
Deposit	3,000	-	-	-	-	3,000
Prepaid expenditures	1,120	-	-	-	-	1,120
<b>Total assets</b>	<b>\$ 5,360,487</b>	<b>2,760,356</b>	<b>279,538</b>	<b>173,398</b>	<b>2,969,099</b>	<b>11,542,878</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Excess of warrants over bank balance	\$ -	-	-	-	6,317	6,317
Accounts payable and accrued liabilities	152,566	-	-	22,667	35,365	210,598
Salaries and benefits payable	168,272	-	-	-	8,968	177,240
Customer deposits	-	-	-	-	600	600
Deferred revenue:						
Succeeding year property tax	2,983,762	-	274,073	-	595,291	3,853,126
Succeeding year tax increment financing	-	1,500,000	-	-	-	1,500,000
<b>Total liabilities</b>	<b>3,304,600</b>	<b>1,500,000</b>	<b>274,073</b>	<b>22,667</b>	<b>646,541</b>	<b>5,747,881</b>
Fund balances:						
Nonspendable:						
Prepaid expenditures	1,120					1,120
Deposits	3,000					3,000
Permanent Trust	-	-	-	-	140,000	140,000
Restricted for:						
Debt Service	-	-	5,465	-	-	5,465
Capital projects	-	-	-	150,731	-	150,731
Other purposes	-	1,260,356	-	-	2,182,558	3,442,914
Unassigned	2,051,767	-	-	-	-	2,051,767
<b>Total fund balances</b>	<b>2,055,887</b>	<b>1,260,356</b>	<b>5,465</b>	<b>150,731</b>	<b>2,322,558</b>	<b>5,794,997</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,360,487</b>	<b>2,760,356</b>	<b>279,538</b>	<b>173,398</b>	<b>2,969,099</b>	<b>11,542,878</b>

See notes to financial statements.

Exhibit D

**City of Pella, Iowa**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Assets**  
**June 30, 2012**

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**Total fund balances of governmental funds (Exhibit C)** \$ 5,794,997

***Amounts reported for governmental activities in the statement of net assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$58,709,039 and the accumulated depreciation is \$19,198,591. 39,510,448

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net assets. 749,608

Long-term liabilities, including bonds/notes payable, bond discounts or premiums (initial and amortized), bond issuance costs (initial and amortized), compensated absences payable, other postemployment benefits payable, and accrued interest payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (4,430,517)

**Net assets of governmental activities (Exhibit A)** \$ 41,624,536

See notes to financial statements.

## Exhibit E

**City of Pella, Iowa**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year ended June 30, 2012**

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Totals
Revenues:						
Property tax	\$ 3,028,610	-	227,727	-	548,428	3,804,765
Tax increment financing	-	1,500,001	-	-	-	1,500,001
Local option sales tax	-	-	-	-	954,070	954,070
Other city taxes	448,497	-	987	-	2,705	452,189
Licenses and permits	66,381	-	-	-	-	66,381
Use of money and property	49,195	1,574	74	1,122	6,329	58,294
Intergovernmental	499,001	-	-	845,978	1,396,831	2,741,810
Charges for services	443,170	-	-	-	3,370	446,540
Miscellaneous	71,005	-	-	46,537	43,904	161,446
Total revenues	4,605,859	1,501,575	228,788	893,637	2,955,637	10,185,496
Expenditures:						
Operating:						
Public safety	1,775,909	-	-	-	2,295	1,778,204
Public works	307,737	-	-	-	802,683	1,110,420
Culture and recreation	1,675,462	-	-	-	49,560	1,725,022
Community and economic development	373,170	206,634	-	-	-	579,804
General government	500,472	-	-	-	-	500,472
Debt service	-	-	957,882	-	-	957,882
Capital projects	-	-	-	2,048,265	-	2,048,265
Total expenditures	4,632,750	206,634	957,882	2,048,265	854,538	8,700,069
Excess (deficiency) of revenues over (under) expenditures	(26,891)	1,294,941	(729,094)	(1,154,628)	2,101,099	1,485,427
Other financing sources (uses):						
Operating transfers in	718,066	-	728,550	1,170,727	440,800	3,058,143
Operating transfers (out)	(620,800)	(862,689)	-	-	(1,333,210)	(2,816,699)
Proceeds from sale of assets	-	-	-	-	-	-
Total other financing sources (uses)	97,266	(862,689)	728,550	1,170,727	(892,410)	241,444
Net change in fund balances	70,375	432,252	(544)	16,099	1,208,689	1,726,871
Fund balances beginning of year	1,985,512	828,104	6,009	134,632	1,113,869	4,068,126
Fund balances end of year	\$ 2,055,887	1,260,356	5,465	150,731	2,322,558	5,794,997

See notes to financial statements.

**City of Pella, Iowa**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds to the Statement of Activities**  
**Year ended June 30, 2012**

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**Net change in fund balances - Total governmental funds (Exhibit E)** **\$ 1,726,871**

***Amounts reported for governmental activities in the Statement of Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and depreciation expense in the current year are as follows:

Expenditures for capital assets	\$ 1,886,540	
Depreciation expense	(1,448,558)	
Loss on capital asset disposal	(14)	437,968

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. Also governmental funds report the effect of bond issuance costs and premiums, whereas these amounts are deferred and amortized in the Statement of Activities.

Current year items are as follows:

Principal payments of general obligation bonds	790,000	
Amortization of bond premiums	13,118	
Amortization of bond issuance costs	(1,484)	801,634

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	4,474	
Employer funds for benefits shifted from other funds	698,660	
Employee benefits collected through withholding	223,636	
Claims and premiums paid out	(897,776)	28,994

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(11,100)	
Other postemployment benefits	(19,548)	
Interest on long-term debt	2,137	(28,511)

**Change in net assets of governmental activities (Exhibit B)** **\$ 2,966,956**

See notes to financial statements.

## Exhibit G

**City of Pella, Iowa**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2012**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
<b>Assets</b>						
Current assets:						
Cash and pooled investments	\$ 1,407,679	779,010	9,049,373	70,802	11,306,864	749,811
Receivables:						
Accrued interest	457	244	3,321	8	4,030	188
Trade (net of allowance for uncollectible)	201,162	166,697	2,127,976	52,627	2,548,462	-
Inventories	83,719	113,222	525,818	-	722,759	-
Security Deposit			70,000		70,000	-
Prepaid expenses	-	-	-	-	-	24,609
Restricted assets:						
Cash and pooled investments	254,000	-	159,942	26,537	440,479	-
Total current assets	1,947,017	1,059,173	11,936,430	149,974	15,092,594	774,608
Non-current assets:						
Deferred charge (issuance costs)	9,514	88,262	-	-	97,776	-
Capital assets (net of accumulated depreciation/amortization)	7,225,075	11,168,741	39,106,045	-	57,499,861	-
Total non-current assets	7,234,589	11,257,003	39,106,045	-	57,597,637	-
<b>Total assets</b>	<b>\$ 9,181,606</b>	<b>12,316,176</b>	<b>51,042,475</b>	<b>149,974</b>	<b>72,690,231</b>	<b>774,608</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 78,080	487,302	2,627,351	40,319	3,233,052	25,000
Salaries and benefits payable	13,420	9,048	36,985	567	60,020	-
Deposits	-	-	89,942	-	89,942	-
Accrued interest payable	3,115	9,608	-	-	12,723	-
Compensated absences payable	23,052	17,636	57,074	685	98,447	-
Long-term debt - due within one year:						
Revenue bonds payable	346,767	256,000	-	-	602,767	-
Total current liabilities	464,434	779,594	2,811,352	41,571	4,096,951	25,000
Long-term liabilities (net of current portion):						
Compensated absences payable	92,210	70,544	228,295	2,740	393,789	-
Net OPEB liability	9,445	8,778	22,174	800	41,197	-
Revenue bonds payable (net of unamortized discount)	658,806	3,681,767	-	-	4,340,573	-
Unamortized bond premium	-	-	-	-	-	-
Total long-term liabilities	760,461	3,761,089	250,469	3,540	4,775,559	-
<b>Total liabilities</b>	<b>1,224,895</b>	<b>4,540,683</b>	<b>3,061,821</b>	<b>45,111</b>	<b>8,872,510</b>	<b>25,000</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	6,219,502	7,230,974	39,106,045	-	52,556,521	-
Restricted for:						
Nonexpendable:						
Security Deposit	-	-	70,000	-	70,000	-
Expendable:						
Revenue note retirement	254,000	-	-	-	254,000	-
Electric improvement	-	-	-	-	-	-
Other	-	-	89,942	26,537	116,479	-
Unrestricted	1,483,209	544,519	8,714,667	78,326	10,820,721	749,608
<b>Total net assets</b>	<b>\$ 7,956,711</b>	<b>7,775,493</b>	<b>47,980,654</b>	<b>104,863</b>	<b>63,817,721</b>	<b>749,608</b>

See notes to financial statements

**City of Pella, Iowa**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**June 30, 2012**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Operating revenues:						
Charges for service (pledged for revenue notes)	\$ 2,226,629	1,786,980	17,919,285	617,518	22,550,412	-
Intergovernmental	-	-	7,878	-	7,878	-
Miscellaneous	35,557	15,282	168,324	-	219,163	-
Internal service charges	-	-	-	-	-	922,296
Total operating revenues	2,262,186	1,802,262	18,095,487	617,518	22,777,453	922,296
Operating expenses:						
Business type activities:						
Personnel services	717,719	518,133	2,413,951	36,396	3,686,199	-
Contractual	100,190	53,794	-	477,535	631,519	707,834
Franchise fees	55,639	35,261	-	-	90,900	-
Materials and Supplies	517,820	524,405	8,656,194	20,821	9,719,240	-
Purchased power	-	-	6,206,809	-	6,206,809	-
Payments in lieu of taxes	-	-	440,031	-	440,031	-
Payments in lieu of services	-	-	111,147	-	111,147	-
Depreciation/Amortization	585,974	830,260	1,288,255	-	2,704,489	-
Claims expense	-	-	-	-	-	189,942
Total operating expenses	1,977,342	1,961,853	19,116,387	534,752	23,590,334	897,776
Operating income (loss)	284,844	(159,591)	(1,020,900)	82,766	(812,881)	24,520
Non-operating revenues (expenses):						
Debt costs and interest	(59,251)	(125,725)	(729,540)	-	(914,516)	-
Interest income	10,512	6,117	65,722	306	82,657	4,474
Rents	26,910	15,587	-	-	42,497	-
Sale/disposal of fixed assets	-	-	9,809,279	-	9,809,279	-
Miscellaneous revenues	43,479	-	-	7,157	50,636	-
Net non-operating revenues (expenses)	21,650	(104,021)	9,145,461	7,463	9,070,553	4,474
Income (loss) before operating transfers	306,494	(263,612)	8,124,561	90,229	8,257,672	28,994
Transfers (out)	(7,800)	(167,870)	(10,926)	(54,848)	(241,444)	-
Net other financing sources (uses)	(7,800)	(167,870)	(10,926)	(54,848)	(241,444)	-
Change in net assets	298,694	(431,482)	8,113,635	35,381	8,016,228	28,994
Net assets beginning of year	7,658,017	8,206,975	39,867,019	69,482	55,801,493	720,614
Net assets end of year	\$ 7,956,711	7,775,493	47,980,654	104,863	63,817,721	749,608

See notes to financial statements.

## Exhibit I

**City of Pella, Iowa**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year ended June 30, 2012**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Cash flows from operating activities:						
Cash received from customers and users	\$ 2,240,284	1,793,339	18,077,741	616,905	22,728,269	-
Cash received from intergovernmental sources	-	-	7,878	-	7,878	-
Cash received from internal service charges	-	-	-	-	-	922,296
Cash paid for personal services	(730,918)	(517,171)	(2,482,603)	(35,231)	(3,765,923)	-
Cash paid to suppliers	(657,490)	(214,448)	(13,345,162)	(498,638)	(14,715,738)	(899,752)
Replacement tax, transfers	-	-	(440,031)	-	(440,031)	-
Net cash provided (used) by operating activities	851,876	1,061,720	1,817,823	83,036	3,814,455	22,544
Cash flows from non-capital financing activities:						
Miscellaneous receipts	70,389	15,587	-	7,157	93,133	-
Transfers (out)	(7,800)	(167,870)	(10,926)	(54,848)	(241,444)	-
Net cash provided (used) by non-capital financing activities	62,589	(152,283)	(10,926)	(47,691)	(148,311)	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(323,444)	(1,535,750)	(13,735,242)	-	(15,594,436)	-
Principal paid on revenue notes (as scheduled)	(340,000)	(246,000)	(1,215,000)	-	(1,801,000)	-
Principal paid on revenue notes (in advance)	-	-	(10,830,000)	-	(10,830,000)	-
Proceeds from revenue bonds issued	-	926,698	-	-	926,698	-
Interest costs (not capitalized)	(49,790)	(106,775)	(620,699)	-	(777,264)	-
Other long-term debt costs	(7,233)	(13,479)	(62,027)	-	(82,739)	-
Proceeds from sale of capital assets	-	-	9,809,279	-	9,809,279	-
Net cash used by capital and related financing activities	(720,467)	(975,306)	(16,653,689)	-	(18,349,462)	-
Cash flows from investing activities:						
Proceeds from (deposits into) investments	464,555	268,081	17,997,679	11,288	18,741,603	175,611
Interest on investments	11,744	6,775	69,450	328	88,297	4,866
Net cash provided by investing activities	476,299	274,856	18,067,129	11,616	18,829,900	180,477
Net (decrease) in cash and cash equivalents	670,297	208,987	3,220,337	46,961	4,146,582	203,021
Cash and cash equivalents at beginning of year	499,141	307,045	2,412,109	41,606	3,259,901	344,440
Cash and cash equivalents at end of year	\$ 1,169,438	516,032	5,632,446	88,567	7,406,483	547,461



City of Pella, Iowa  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2012

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
<i>Continued from previous page</i>						
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 284,844	(159,591)	(1,020,900)	82,766	(812,881)	24,520
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/Amortization	585,974	830,260	1,288,255	-	2,704,489	-
Change in assets and liabilities:						
(Increase) decrease in receivables	(21,902)	(8,923)	(9,868)	(613)	(41,306)	-
(Increase) decrease in inventory	7,463	11,449	345,270	-	364,182	-
(Increase) in customer deposits	-	-	-	-	-	-
(Increase) decrease in prepaid expense	-	-	-	-	-	(1,875)
Increase (decrease) in accounts payable	8,696	387,563	1,276,435	(282)	1,672,412	(101)
Increase (decrease) in accrued expenses	(17,011)	(11,630)	(70,963)	(694)	(100,298)	-
Increase (decrease) in compensated absences	2,391	10,792	(3,922)	1,782	11,043	-
Increase in deposits held	-	-	7,283	-	7,283	-
Increase (decrease) in other postemployment benefits	1,421	1,800	6,233	77	9,531	-
Total adjustments	567,032	1,221,311	2,838,723	270	4,627,336	(1,976)
Net cash provided (used) by operating activities	\$ 851,876	1,061,720	1,817,823	83,036	3,814,455	22,544
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:</b>						
Current assets:						
Unrestricted assets:						
Cash and pooled investments	\$ 1,407,679	779,010	9,049,373	70,802	11,306,864	749,811
Restricted assets:						
Cash and pooled investments:						
Water bond reserve	254,000	-	-	-	254,000	-
Electric security deposit	-	-	70,000	-	70,000	-
Customer deposits & project share	-	-	89,942	-	89,942	-
Sanitation totes	-	-	-	26,537	26,537	-
	254,000	-	159,942	26,537	440,479	-
Total cash and pooled investments	1,661,679	779,010	9,209,315	97,339	11,747,343	749,811
Less items not meeting definition of cash equivalent:						
Certificates of deposit	(469,428)	(250,790)	(3,411,100)	(8,365)	(4,139,683)	(192,972)
Iowa Public Agency Investment Trust	(22,813)	(12,188)	(165,769)	(407)	(201,177)	(9,378)
	(492,241)	(262,978)	(3,576,869)	(8,772)	(4,340,860)	(202,350)
Cash and cash equivalents at year end	\$ 1,169,438	516,032	5,632,446	88,567	7,406,483	547,461

Exhibit I

City of Pella, Iowa  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2012

	Business Type Activities					Governmental
	Enterprise Funds					Activities
	Water	Wastewater	Electric	Sanitation	Total	Internal Service Funds
<i>Continued from previous page</i>						
<b>Non-cash investing, capital and financing activities:</b>						
Current issuance cost expense, prior cash outlay	\$ 3,262	3,258	95,530	-	102,050	-
Current discount amortization, prior cash receipt	3,233	-	44,277	-	47,510	-
Current premium amortization, prior cash outlay	-		(12,995)	-	(12,995)	-

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Pella Business Corridor Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Debt Service Fund is used to account for property tax and other revenues to be used for the payment of interest and principal on the City's general obligation long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

Special Revenue:

The High Point Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Road Use Tax fund is used to account for road construction and maintenance.

The Local Option Sales Tax fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits fund is used to account for property tax levied to finance the payment of employee benefits.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Pella Community Center Van Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Community Gardens Trust, Community Service Scholarship Trust, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the statement of cash flow, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Trade receivables - Trade receivables are recorded in the enterprise funds at the time the service is billed. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2012 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2011.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of two years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2012.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

*Nonspendable* – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*Committed* – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

*Unassigned* – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the public safety, community and economic development and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2012 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2012 are as follows:

Certificates of deposit	\$ 5,082,942
Iowa Public Agency Investment Trust	247,058
Money Market Liquid Funds	40,556
Government Bonds	15,118
Total	<u>\$ 5,385,674</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.



Credit risk: The investment in the Iowa Public Agency Investment Trust is rated Aaa by Moody's Investors Service. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

**(3) Trade Accounts Receivable and Allowance for Uncollectibles**

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$237,572, \$41,827, \$37,906 and \$16,666, respectively.

**(4) Proprietary Revenues Net of Discounts and Allowances**

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in	Net Charges for Service
		Allowance	
Water	\$ 2,228,212	(1,583)	2,226,629
Wastewater	1,788,360	(1,380)	1,786,980
Electric	17,928,468	(9,183)	17,919,285
Sanitation	618,343	(825)	617,518

**(5) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(6) Emission Credits**

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. Emission credit activity and value of the unused credits for the year ended June 30, 2012 is as follows:

Credit Type	Number of Credits					Value	
	7/1/2011	Earned	Used/ Transferred	Bought/Sold	6/30/2011	Each	Total
SO2 (1 Ton)	8,823	0	-223	0	8,600	\$0.75	\$ 6,450
SO2 (.5 Ton)	3,528	1,764	0	0	5,292	0.75	3,969
Nox(Annual)	194	140	-181	0	153	30.00	4,590
Nox(Seasonal)	144	63	-88	0	119	7.50	893
Total	12,689	1,967	-492	0	14,164	\$	15,902

(7) **Capital Assets**

Capital assets activity for the year ended June 30, 2012 was as follows:

<b>Primary Government:</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 5,450,589	-	-	5,450,589
Construction in progress:				
North Main St. Replacement	391,862	950,585	1,342,447	-
Airport Runway Rehab	33,509	193,569	227,078	-
Renovation of Indoor Pool	433,943	201,707	635,650	-
Business 163 Overlay	276,061	15,018	291,079	-
University St. Reconstruction	36,013	308,378	344,391	-
East 3rd St.	-	11,340	-	11,340
West 1st St. Reconstruction	-	12,167	-	12,167
	-	-	-	-
Total capital assets not being depreciated	6,621,977	1,692,764	2,840,645	5,474,096
Capital assets being depreciated:				
Vehicles	1,023,655	89,545	18,253	1,094,947
Buildings and improvements	24,959,288	685,905	-	25,645,193
Machinery and equipment	5,748,295	37,148	108,983	5,676,460
Infrastructure	18,596,520	2,221,823	-	20,818,343
Total capital assets being depreciated	50,327,758	3,034,421	127,236	53,234,943
Less accumulated depreciation for:				
Vehicles	465,520	126,975	18,253	574,242
Buildings and improvements	5,637,602	664,399	-	6,302,001
Machinery and equipment	5,113,891	115,446	108,969	5,120,368
Infrastructure	6,660,242	541,738	-	7,201,980
Total accumulated depreciation	17,877,255	1,448,558	127,222	19,198,591
Total capital assets being depreciated net	32,450,503	1,585,863	14	34,036,352
<b>Governmental activities capital assets, net</b>	<b>\$ 39,072,480</b>	<b>3,278,627</b>	<b>2,840,659</b>	<b>39,510,448</b>

(7) **Capital assets (continued from previous page)**

**Business type activities:**

**Water Fund:**

Capital assets not being depreciated:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Land	\$ 118,360	-	-	118,360
Construction in progress:				
Central Drive Loop	5,322	-	5,322	-
N. Main St. Water Main Replacement	498,077	28,552	526,629	-
East 3rd St. Water	-	4,620	-	4,620
West 1st St. Water Main	-	1,914	-	1,914
Total capital assets not being depreciated	621,759	35,086	531,951	124,894

Capital assets being depreciated:

Buildings and improvements	9,627,431	126,680	-	9,754,111
Machinery and equipment	821,496	118,199	3,781	935,914
Furniture and fixtures	1,079	-	-	1,079
Vehicles	94,043	-	-	94,043
Infrastructure	4,956,353	575,430	-	5,531,783
Total capital assets being depreciated	15,500,402	820,309	3,781	16,316,930

Less accumulated depreciation for:

Buildings and improvements	5,720,473	256,838	-	5,977,311
Machinery and equipment	444,656	108,307	3,781	549,182
Furniture and fixtures	1,079	-	-	1,079
Vehicles	73,156	10,641	-	83,797
Infrastructure	2,395,192	210,188	-	2,605,380
Total accumulated depreciation	8,634,556	585,974	3,781	9,216,749

Total capital assets being depreciated net

**Water - capital assets, net**

	6,865,846	234,335	-	7,100,181
<b>Water - capital assets, net</b>	<b>\$ 7,487,605</b>	<b>269,421</b>	<b>531,951</b>	<b>7,225,075</b>

(7) **Capital assets (continued from previous page)**

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Wastewater Fund:</b>				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
North Main Sewer Replacement	110,250	93,702	203,952	-
IDNR Bypass Mandate Improvements	246,967	499,344	-	746,311
Marion St. Sewer	70,968	4,211	75,179	-
Flat Roof Replacement	15,588	27,235	42,823	-
Digester Lid Replacement	93,330	759,976	853,306	-
East 3rd St. Sewer	-	26,444	-	26,444
West 1st Sanitary Sewer	-	1,332	-	1,332
Lift Station #2 Force Main	-	953	-	953
Total capital assets not being depreciated	1,444,152	1,413,197	1,175,260	1,682,089
Capital assets being depreciated:				
Buildings and improvements	16,671,232	937,119	-	17,608,351
Machinery and equipment	631,669	81,563	12,245	700,987
Furniture and fixtures	4,154	-	-	4,154
Vehicles	297,372	-	-	297,372
Infrastructure	7,799,080	279,131	-	8,078,211
Total capital assets being depreciated	25,403,507	1,297,813	12,245	26,689,075
Less accumulated depreciation for:				
Buildings and improvements	12,014,463	436,685	-	12,451,148
Machinery and equipment	469,482	35,739	12,245	492,976
Furniture and fixtures	4,154	-	-	4,154
Vehicles	172,404	41,117	-	213,521
Infrastructure	3,723,905	316,719	-	4,040,624
Total accumulated depreciation	16,384,408	830,260	12,245	17,202,423
Total capital assets being depreciated net	9,019,099	467,553	-	9,486,652
<b>Wastewater - capital assets, net</b>	<b>\$ 10,463,251</b>	<b>1,880,750</b>	<b>1,175,260</b>	<b>11,168,741</b>

(7) **Capital assets (continued from previous page)**

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Electric Fund:</b>				
Capital assets not being depreciated/amortized:				
Land	\$ 550,724	330,354	-	881,078
Construction in progress:				
Diesel Plant Stack Ext	65,610	540,105	605,715	-
Ins. Settings-Feeder Breakers	11,370	-	-	11,370
SE Switching Station	495,134	3,734,788	4,229,922	-
Diesel Plant RICE	23,554	33,090	-	56,644
02347 WS4 Fall 2010 Aerial Surveys	1,726	4	1,730	-
Clark St. Substation	-	952,345	-	952,345
Total capital assets not being depreciated/amortized	1,148,118	5,590,686	4,837,367	1,901,437
Capital assets being depreciated/amortized:				
Buildings and improvements	36,612,338	620,318	17,170,346	20,062,310
Machinery and equipment	28,230,368	3,901,605	2,362,641	29,769,332
Furniture and fixtures	16,988	-	-	16,988
Vehicles	416,534	-	-	416,534
Intangibles	-	8,460,000	-	8,460,000
Total capital assets being depreciated/amortized	65,276,228	12,981,923	19,532,987	58,725,164
Less accumulated depreciation/amortization for:				
Buildings and improvements	12,239,846	451,541	2,370,745	10,320,642
Machinery and equipment	10,334,165	794,814	369,508	10,759,471
Furniture and fixtures	16,988	-	-	16,988
Vehicles	381,555	21,011	-	402,566
Intangibles	-	20,889	-	20,889
Total accumulated depreciation/amortization	22,972,554	1,288,255	2,740,253	21,520,556
Total capital assets being depreciated/amortized net	42,303,674	11,693,668	16,792,734	37,204,608
<b>Electric-capital assets, net</b>	<b>\$ 43,451,792</b>	<b>17,284,354</b>	<b>21,630,101</b>	<b>39,106,045</b>

(7) **Capital assets (continued from previous page)**

<b>Combining Schedule</b>				
<b>Business type activities:</b>		Balance Beginning of Year	Increases	Decreases
				Balance End of Year
Capital assets not being depreciated/amortized:				
Land		\$ 1,576,133	330,354	-
Construction in progress		1,637,896	6,708,615	6,544,578
Total capital assets not being depreciated/amortized		3,214,029	7,038,969	6,544,578
Capital assets being depreciated/amortized:				
Total capital assets being depreciated/amortized		106,180,137	15,100,045	19,549,013
Total accumulated depreciation/amortization		47,991,518	2,704,489	2,756,279
Total capital assets being depreciated/amortized (net)		58,188,619	12,395,556	16,792,734
<b>Business type activities capital assets, net</b>		<b>\$ 61,402,648</b>	<b>19,434,525</b>	<b>23,337,312</b>

Depreciation was charged to functions of the primary government as follows:

<b>Governmental activities:</b>		
Public works		\$ 704,336
Public safety		138,116
Culture and recreation		478,994
General government		127,112
Total depreciation expense - governmental activities		<u>1,448,558</u>
<b>Business type activities:</b>		
Water		\$ 585,974
Wastewater		830,260
Electric		1,288,255
Total depreciation/amortization expense - business type activities		<u>\$ 2,704,489</u>

(8) **Long-Term Liabilities**

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. The following is a summary of changes in long-term liabilities of the City of Pella for the year ended June 30, 2012:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
<b>Governmental activities:</b>						
General obligation bonds/notes	\$ 4,725,000	-	790,000	3,935,000	820,000	3,115,000
Unamortized premium	51,379	-	13,118	38,261	13,118	25,143
Compensated absences	387,831	94,095	82,996	398,930	82,996	315,934
Net OPEB liability	31,421	22,888	3,340	50,969	-	50,969
<b>Total governmental activities</b>	<b>\$ 5,195,631</b>	<b>116,983</b>	<b>889,454</b>	<b>4,423,160</b>	<b>916,114</b>	<b>3,507,046</b>
<b>Business type activities:</b>						
Revenue bonds/notes (gross)	\$ 16,657,069	926,698	12,631,000	4,952,767	606,000	4,346,767
Unamortized premium	12,995	-	12,995	-	-	-
Compensated absences	481,193	109,490	98,447	492,236	98,447	393,789
Net OPEB liability	34,515	7,235	553	41,197	-	41,197
Total	17,185,772	1,043,423	12,742,995	5,486,200	704,447	4,781,753
Unamortized discount	(56,937)	-	47,510	(9,427)	(3,233)	(6,194)
<b>Total business type activities</b>	<b>\$ 17,128,835</b>	<b>1,043,423</b>	<b>12,790,505</b>	<b>5,476,773</b>	<b>701,214</b>	<b>4,775,559</b>

(8) **Long-Term Liabilities (continued from previous page)**

General Obligation Bonds

Four issues of unmatured general obligation bonds/notes totaling \$3,935,000 are outstanding at June 30, 2012. General obligation bonds/notes bear interest rates ranging from 3.00% to 4.10% per annum and mature in varying annual amounts, ranging from \$105,000 to \$380,000, with final maturities due in the year ending June 30, 2020.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Details of general obligation bonds/notes payable at June 30, 2012 are as follows:

Governmental activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2012
General and essential corporate purpose	2006	3.85-4.05%	June 1, 2016	\$230,000-270,000	\$ 2,260,000	1,005,000
General and essential corporate purpose	2008A	3.00-3.90%	June 1, 2018	115,000-150,000	1,230,000	805,000
General and essential corporate purpose	2008B	3.00-4.10%	June 1, 2020	105,000-150,000	1,420,000	1,025,000
Essential corporate purpose	2010A	3.00%	June 1, 2015	340,000-380,000	2,115,000	1,100,000
Total governmental activities						<u>\$ 3,935,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year ending June 30,	General Obligation Debt		
	Principal	Interest	Total
2013	820,000	140,228	960,228
2014	850,000	113,113	963,113
2015	885,000	84,508	969,508
2016	525,000	54,158	579,158
2017	275,000	33,788	308,788
2018-2020	580,000	41,444	621,444
Total	<u>\$ 3,935,000</u>	<u>467,239</u>	<u>4,402,239</u>

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	2006	2,260,000	June 1, 2014
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016
G/O Debt-Refunding Urban renewal	2010A	2,115,000	Not subject to call

(8) **Long-Term Liabilities (continued from previous page)**

Revenue Notes

Five issues of unmatured revenue notes totaling \$4,952,767 are outstanding at June 30, 2012. These notes bear interest at rates ranging from 3.00% to 3.70% per annum and mature in varying annual amounts ranging from \$28,000 to \$370,000 with the final maturity due in the year ending June 30, 2021.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c) Separate water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, and not less than 130% for water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2012, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2012, are as follows:

Business type activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2012
Wastewater	1999	3.00%	June 1, 2021	\$145,000-197,000	\$ 2,800,000	1,527,000
Wastewater	2000	3.00%	June 1, 2021	83,000-116,000	1,604,000	888,000
Wastewater	2000	3.00%	June 1, 2021	28,000-39,000	641,000	297,000
Water refunding	2007	3.65-3.70%	June 1, 2015	295,000-370,000	2,540,000	1,015,000
SRF Drawdown - final amounts not yet established				174,000-204,000	Not Final	1,225,767
						<u>4,952,767</u>
Unamortized discount						<u>(9,427)</u>
Total business type activities -Net revenue bonds						<u>\$ 4,943,340</u>



(8) **Long-Term Liabilities (continued from previous page)**

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds					
	Water		Wastewater		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 350,000	37,380	256,000	81,360	606,000	118,740
2014	370,000	24,605	440,000	73,680	810,000	98,285
2015	295,000	10,915	456,000	65,700	751,000	76,615
2016	-	-	474,000	57,420	474,000	57,420
2017	-	-	492,000	48,780	492,000	48,780
2018-2021	-	-	1,819,767	101,490	1,819,767	101,490
Total	\$ 1,015,000	72,900	3,937,767	428,430	4,952,767	501,330

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Water refunding	2007	2,540,000	Not subject to call
Wastewater	2010	SRF Drawdown-final amount not determined	

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2012:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 1,355,000	-	(340,000)	1,015,000
Unamortized discount	(12,660)	-	3,233	(9,427)
Net water revenue notes	1,342,340	-	(336,767)	1,005,573
Sewer revenue notes	3,257,069	926,698	(246,000)	3,937,767
Net sewer revenue notes	3,257,069	926,698	(246,000)	3,937,767
Electric revenue notes	12,045,000	-	(12,045,000)	-
Unamortized discount	(44,277)	-	44,277	-
Net electric revenue notes	12,000,723	-	(12,000,723)	-
Total net revenue notes	\$ 16,600,132	926,698	(12,583,490)	4,943,340

The \$926,698 increase in sewer revenue notes is from the SRF loan fund. It is a partial draw down on a loan that has been approved to be up to \$4,800,000. It is estimated that the funds may be distributed through the fall of 2013 with the first estimated payment to begin 6/1/2014. Actual interest and principal payments will be determined by the timing and extent of the actual funds borrowed. Principal payments for the purpose of this report were based on the estimated amortization tables provided, and no interest on these funds were included. Interest, once the loan is finalized, is estimated to be at 3.00%.

(8) **Long-Term Liabilities (continued from previous page)**

Advanced Refunding – November 1, 2011, the City sold their share in the WS-4 electric plant which provided the resources for \$12,045,000 of advance refunding on the City's electric bonds dated April 2004, June 2005 and January 2010. As a result, the advance refunded bonds are considered defeased and the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. As of June 30, 2012, \$5,535,000 of bonds considered defeased are still outstanding.

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$154,111 is all direct debt costs and interest expense on long-term debt.

Discount and issuance costs are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction of the face amount of bonds/notes payable whereas issuance costs are recorded as deferred charges. The details of the discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance Beginning of Year	Incurred	Amortized	Balance End of Year
<b>Governmental activities:</b>				
G.O. bond	\$ 5,814	-	(1,484)	4,330
<b>Business type activities:</b>				
Sewer SFR Loan	33,722	57,798	(3,258)	88,262
Water revenue note	12,776	-	(3,262)	9,514
Electric revenue note	95,530	-	(95,530)	-
Total business type:	142,028	57,798	(102,050)	97,776
Total deferred issuance costs	\$ 147,842	57,798	(103,534)	102,106

(9) **Interfund Transfers**

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to:	Transfer from:	Amount
	Special Revenue:	
General	Employee Benefits	\$ 552,418
	Local option sales tax	110,800
	Environmental Services	54,848
		<u>718,066</u>
	Special Revenue:	
Debt Service	Local option sales tax	50,000
	Pella Business Corridor- TIF	518,480
	Wastewater	160,070
		<u>728,550</u>
Special Revenue:		
Road use	General	<u>440,800</u>
Capital Projects	General	180,000
	Electric	10,926
	Water	7,800
	Wastewater	7,800
	Special Revenue:	
	Local option sales tax	224,707
	Road use	395,286
	Pella Business Corridor- TIF	344,209
		<u>1,170,728</u>

(10) **Net Assets Restricted by Enabling Legislation**

The components of Net Restricted Assets listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Nonexpendable:		
Customer Deposits	\$ 3,000	70,000
Prepaid expenditures	1,120	-
Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Permanently restriction donation - Van Gorp Trust	100,000	-
Expendable:		
Debt restricted - Water Bond Reserve	-	254,000
Other - deposits	-	116,479
Special purposes:		
Debt Service	5,465	-
Capital projects	150,731	-
TIF - High Point	55	-
TIF - Pella Business Corridor	1,260,356	-
Road use	712,987	-
Local Option Sales Tax	1,140,194	-
Pella Clothing Bank	1,177	-
Police Reserve	1,192	-
Community Development	4,896	-
Library Gifts/Memorials	108,667	-
Pella Community Center	2,185	-
Pella Community Center Van Trust	3,643	-
Art Center	19,472	-
Airport	38,505	-
Police Asset Forfeiture	48,511	-
Soccer Complex	170	-
Community Gardens Trust Fund	1,702	-
Community Service Scholarship Trust	493	-
Parks Development	17,077	-
Carnegie-Viersen Trust Earnings - Educational purposes	34,933	-
Carnegie-Viersen-Van Gorp Trust - Library operations and repairs	34,722	-
Van Gorp Trust Earnings - Information Windmill Repairs	11,977	-
Total net restricted assets	\$ 3,743,230	440,479

(11) **Retirement Plans**

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

**(11) Retirement Plans (continued from previous page)**

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010, were \$379,803, \$315,024, and \$321,128, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2012, 2011 and 2010 were \$171,009, \$137,243, and \$116,631, respectively, which met the required minimum contribution for each year.

**(12) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 92 active and one retired member in the plan. General participants (IPERS) must be age 55 or older at retirement. Police participants (MFDRSI) must be age 55 or older with 22 years of service at retirement. Surviving spouse/dependents of retirees are allowed to remain on health coverage at their own expense until age 65.

The medical/prescription drug coverage is provided through a purchased high deductible health insurance plan and a partially self-funded plan where the City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$	30,030
Interest on net OPEB obligation		2,637
Adjustment to annual required contribution		(2,544)
Annual OPEB cost		<u>30,123</u>
Contributions made		<u>(3,893)</u>
Increase in net OPEB obligation		26,230
Net OPEB obligation beginning of year		<u>65,936</u>
Net OPEB obligation end of year	\$	<u><u>92,166</u></u>

(12) **Other Postemployment Benefits (continued from previous page)**

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2012, the City contributed \$3,893 toward the annual required OPEB contribution. It also funded 90% of the established premium toward active members' health coverage. Active members receiving benefits contributed \$91,145, or 10% of the established premium, through their required contribution of \$47 or \$99 per month, depending on whether single or family coverage is elected. There was one retiree covered during the 2012 fiscal year.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 24,155	4.4%	\$ 45,156
June 30, 2011	20,780	4.4%	65,936
June 30, 2012	26,230	4.0%	92,166

**Funded Status and Funding Progress** - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$256,727, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$199 thousand. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,543,545 and the ratio of the UAAL to covered payroll was 5.7%. As of June 30, 2012, there were no trust fund assets.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 8.5%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2010 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2010.

Projected claim costs of the medical plan are \$867 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(13) Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

**(14) Related Party Transactions**

The City had business transactions between the City and Council members totaling \$79,431 during the year ended June 30, 2012. There were no related payables at June 30, 2012.

**(15) Major Customer**

During the year ended June 30, 2012, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,767,520 and \$2,540,079 of electric power. These charges represent 21.02% and 14.18%, respectively, of total charges for electric services.

**(16) Risk Management**

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Shared Funding/Partial Self-Funding Health Care Plan – The City of Pella entered into a 28E agreement on July 7, 2009, as allowed by Chapter 28E of the Code of Iowa which authorizes the joint exercise of governmental powers that would include a cooperative agreement to create and maintain a health benefit program. The participating agencies join together to form the Iowa Governmental Health Care Plan (IGHCP). IGHCP is a benefits trust for shared risk pooling among Public Employers in the State of Iowa. Its unique design allows entities to enter into the trust based on claims experience, plan design and demographics. The entities are then pooled at renewal, using total claims experience to develop renewal percentages.

IGHCP purchases a high deductible health insurance plan from Wellmark, Blue Cross/Blue Shield. The City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the City for claims incurred is limited by the spread between the deductibles and out-of-pocket maximums and those of the policy carried by the City. For 2011, the risk spread for employees with single coverage was \$2,750 per employee and for those with family coverage was \$5,500 per employee. The total risk in 2011 was \$409,750. In 2012, the risk spread was \$2,750 for employees with single coverage and \$5,500 for employees with family coverage. Total risk in 2012 was \$396,000 if every employee hit their maximum out-of-pocket amounts.

At June 30, 2012, the plan held \$749,811 cash and pooled investments. The actuarial estimate of the reserves necessary for the claims incurred but not yet paid was \$25,000, which is listed as the accounts payable balance of the internal Service Fund.

(17) Commitments

The City has entered into several contracts totaling \$8,337,690. At June 30, 2012, \$3,691,393 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	% Complete
EQ Basin			
CI Carroll Company, Inc.	\$ 1,799,000	68,875	4%
Digester Lid Improvements-Engineering			
Howard R. Green Company	55,000	49,522	90%
Televise Sanitary Sewer			
Visu-Sewer	307,047	132,811	43%
69 kV Transmission Line			
Peiperline	510,444	378,659	74%
Digester Lids			
CL Carroll Company, Inc	753,509	715,824	95%
Northeast Sanitary Sewer Improvement-Engineering			
Howard R Green Company	343,200	226,000	66%
W 1st St. Construcion			
Pella Concrete Contractors	264,032	-	0%
Joint Airport Justification Report			
Snyder & Assoc.	21,333	17,280	81%
E 3rd St. Sanitary Sewer Project			
TK Concrete	455,449	-	0%
Clark St. Substation			
Harold K Scholz Company	1,277,641	-	0%
Cooling Tower Demolition			
Tomorrow's Resources	134,000	127,300	95%
Pella to I-80 Corridor Feasibility Study			
CH2MHILL	400,049	335,014	84%
69 kV Tranmission Line Mods			
DeWild Grant Reckert	63,800	57,420	90%
Southeast Switching Station			
Pipeline	1,379,822	1,223,837	89%
Clark St. Substation			
DeWild Grant Reckert	203,500	172,975	85%
Lime Sludge Removal & Disposal			
Biosolids Management Group, Inc.	161,964	100,190	62%
W 1st St. Reconstruction			
Garden & Associates	33,800	14,286	42%
E 3rd St. Sanitary Sewer Project			
Howard R. Green Company	78,600	42,000	53%
South Water Tank Rehabilitation			
Howard R. Green Company	39,500	-	0%
RICE Upgrade			
PRVN Consultants, Inc.	56,000	29,400	53%
	<u>\$ 8,337,690</u>	<u>3,691,393</u>	

(17) **Commitments (continued from previous page)**

Other Contracts:		Expires:
Power Supply Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
Transmission Service Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
MISO Market Implementation Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
Dedicated Capacity Agreement		
Missouri River Energy Services	Monthly revenue	12/31/2018
Solid Waste Collection		
Kal Services, Inc.	per ton	7/31/2015

(18) **Contingent Liability and Gain**

The City is subject to pending litigation seeking damages. One lawsuit, filed in 2012, had been in mediation which was unsuccessful. While there has not been formal discovery, the potential Plaintiffs demand to settle this case was in excess of \$3,000,000. Regarding any other litigation the amount and probability of loss, if any, is not determinable. However, the City believes any loss would be covered by insurance.

The City has been awarded \$788,000 from a lawsuit filed concerning construction of certain parts of the new aquatic center. The matter proceeded to trial July, 2010 and, while judgment was made in favor of the City, action related to collection of the judgment is ongoing. The success of collection of this judgment is unknown at this time.

(19) **Subsequent Events**

The City Council approved the sale of Healthcare Facility Revenue Bond (Hearthstone Project) in principal not to exceed \$10,000,000. The purpose of the conduit bond issue is to fund a senior retirement community Hearthstone is constructing on 50 acres directly north of the Pella Country Club at 1620 Main Street. This development will consist of 64 nursing beds and up to 34 one and two bedroom assisted living units. To finance the project, Hearthstone would like to issue tax-exempt bonds to fund the estimated construction cost of \$20 million. The advantage of tax exempt financing is that it will allow the project to have a lower interest rate than taxable bonds. In order to accomplish Hearthstone's financing needs, they have made a request to the City of Pella to issue a \$10 million Conduit Revenue Bond issue for the project. This bond issue is a 'conduit' issuance because the City acts as conduit between the purchasers of the bonds and Hearthstone. Under this arrangement, the bonds are issued by the City and the proceeds of the bonds are then loaned to Hearthstone through a loan agreement in which Hearthstone agrees to repay the bondholders. It is important to note the following in issuing Conduit Bonds: the bonds do not constitute a liability or indebtedness of the City; the bonds do not count against the City's 5% constitutional debt limit; and the bonds will not count against the City's bank qualified issue limits of \$10 million per calendar year.

City staff preformed a review of Hearthstone's financial plan to fund the project and feels Hearthstone has the ability to repay a conduit bond issue on a timely basis. In addition, City staff also believes the proposed bond issue is in accordance with the City's Conduit Revenue bond Policy. The City's bond counsel has reviewed the loan and pledge agreements.



### **Required Supplementary Information**

**City of Pella, Iowa**  
**Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances**  
**Budget and Actual (Modified Accrual Basis)**  
**Governmental and Proprietary Funds**  
**Required Supplementary Information**  
**Year ended June 30, 2012**

	Governmental Funds-Actual	Proprietary Funds-Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Property taxes	\$ 3,804,765	-	3,804,765	3,805,211	3,805,211	(446)
Tax increment financing	1,500,001	-	1,500,001	1,486,444	1,486,444	13,557
Other city taxes	1,406,259	-	1,406,259	832,375	832,375	573,884
Licenses and permits	66,381	-	66,381	52,700	52,700	13,681
Use of money and property	58,294	125,154	183,448	319,959	205,142	(21,694)
Intergovernmental	2,741,810	7,878	2,749,688	3,460,476	3,673,788	(924,100)
Charges for services	446,540	22,550,412	22,996,952	25,960,867	23,417,429	(420,477)
Special Assessments	-	-	-	-	-	-
Miscellaneous	161,446	269,799	431,245	110,600	110,600	320,645
Total revenues	10,185,496	22,953,243	33,138,739	36,028,632	33,583,689	(444,950)
Expenditures:						
Public safety	1,778,204	-	1,778,204	1,750,322	1,754,932	(23,272)
Public works	1,110,420	-	1,110,420	1,166,834	1,173,640	63,220
Culture and recreation	1,725,022	-	1,725,022	1,806,008	1,821,588	96,566
Community and economic development	579,804	-	579,804	573,702	573,702	(6,102)
General government	500,472	-	500,472	505,994	506,794	6,322
Debt service	957,882	-	957,882	957,483	957,483	(399)
Capital projects	2,048,265	-	2,048,265	3,794,035	4,108,823	2,060,558
Business type activities	-	41,487,030	41,487,030	30,696,361	55,390,580	13,903,550
Total expenditures	8,700,069	41,487,030	50,187,099	41,250,739	66,287,542	16,100,443
Excess (deficiency) of revenues over (under) expenditures	1,485,427	(18,533,787)	(17,048,360)	(5,222,107)	(32,703,853)	15,655,493
Other financing sources (uses):						
Operating transfers in	3,058,143	-	3,058,143	13,867,224	40,062,333	37,004,190
Operating transfers out	(2,816,699)	(241,444)	(3,058,143)	(13,867,224)	(40,062,333)	(37,004,190)
Debt Proceeds	-	926,698	926,698	5,121,000	4,225,500	3,298,802
Proceeds from sale of assets	-	26,602,013	26,602,013	5,000	26,805,000	202,987
Total other financing sources	241,444	27,287,267	27,528,711	5,126,000	31,030,500	3,501,789
Excess (deficiency) of revenues and other financing sources over (under) expenditures	1,726,871	8,753,480	10,480,351	(96,107)	(1,673,353)	12,153,704
Balance beginning of year	4,068,126	11,800,848	15,868,974	15,778,955	14,972,585	896,389
Balance end of year	\$ 5,794,997	20,554,328	26,349,325	15,682,848	13,299,232	13,050,093

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

**City of Pella, Iowa**  
**Budgetary Comparison Schedule**  
**Proprietary-GAAP to Modified Accrual Reconciliation**  
**Required Supplementary Information**  
**Year ended June 30, 2012**

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 22,953,243	-	22,953,243
Expenses:			
Business type activities	24,504,850	16,982,180	41,487,030
Excess (deficiency) of revenues under expenses	(1,551,607)	(16,982,180)	(18,533,787)
Other financing sources (uses):			
Operating transfers to other funds	(241,444)	-	(241,444)
Sale of fixed assets	9,809,279	16,792,734	26,602,013
Debt proceeds	-	926,698	926,698
Total other financing sources (uses)	9,567,835	17,719,432	27,287,267
Increase in net assets	8,016,228	737,252	8,753,480
Beginning net assets	55,801,493	(44,000,645)	11,800,848
Ending net assets	\$ 63,817,721	(43,263,393)	20,554,328

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$16,982,180 adjustment to proprietary expenditures. The \$16,792,732 adjustment to the Sale of fixed assets adjusts for the difference between the gain on the sale of the fixed assets as reported under GAAP and the actual gross proceeds from the sale of the proprietary assets by adjusting the amount for the net book value that was removed when the asset was sold or disposed.

See accompanying independent auditor's report.

The budgetary comparison is presented as Required Supplementary Information in accordance with *Government Accounting Standards* Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted revenues by \$2,444,943, increased budgeted disbursements by \$25,036,803 increased other financing sources by \$52,099,609 and increased transfers out by \$26,195,109. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements in the public safety, community and economic development and debt service functions exceeded the amounts budgeted.

City of Pella, Iowa  
Schedule of Funding Progress for the Retiree Health Plan  
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2009	\$ -	199,000	199,000	0.0%	\$ 4,866,000	4.1%
2010	July 1, 2009	-	199,000	199,000	0.0%	4,259,187	4.7%
2011	July 1, 2009	-	199,000	199,000	0.0%	4,202,220	4.7%
2012	July 1, 2011	-	256,727	256,727	0.0%	4,543,545	5.7%

See Note 12 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

**City of Pella, Iowa**

### **Other Supplementary Information**

## Schedule 1

**City of Pella, Iowa**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2012**

	Special Revenue Funds								
	Highpoint Tax Increment Financing	Road Use	Local Option Sales Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial	Pella Community Center Trust
<b>Assets</b>									
Cash and pooled investments	\$ 55	749,395	984,213	-	1,177	1,192	4,895	110,538	2,185
Receivable:									
Property tax:									
Delinquent	-	-	-	6,317	-	-	-	-	-
Succeeding year	-	-	-	595,291	-	-	-	-	-
Local option sales tax	-	-	155,981	-	-	-	-	-	-
Accounts receivable, miscellaneous	-	3,387	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	1	18	-
<b>Total assets</b>	<b>\$ 55</b>	<b>752,782</b>	<b>1,140,194</b>	<b>601,608</b>	<b>1,177</b>	<b>1,192</b>	<b>4,896</b>	<b>110,556</b>	<b>2,185</b>
<b>Liabilities and Fund Balance</b>									
<b>Liabilities:</b>									
Excess of warrants over bank balance	\$ -	-	-	6,317	-	-	-	-	-
Accounts payable	-	30,827	-	-	-	-	-	1,889	-
Salaries and benefits payable	-	8,968	-	-	-	-	-	-	-
Customer Deposits	-	-	-	-	-	-	-	-	-
Deferred revenue:									
Succeeding year property tax	-	-	-	595,291	-	-	-	-	-
Total liabilities	-	39,795	-	601,608	-	-	-	1,889	-
<b>Fund balances:</b>									
Nonspendable:									
Permanent trust	-	-	-	-	-	-	-	-	-
Restricted for:									
Other purposes	55	712,987	1,140,194	-	1,177	1,192	4,896	108,667	2,185
Total fund balances	55	712,987	1,140,194	-	1,177	1,192	4,896	108,667	2,185
<b>Total liabilities and fund balance</b>	<b>\$ 55</b>	<b>752,782</b>	<b>1,140,194</b>	<b>601,608</b>	<b>1,177</b>	<b>1,192</b>	<b>4,896</b>	<b>110,556</b>	<b>2,185</b>

See accompanying independent auditor's report.



## Schedule 1

Special Revenue Funds										Permanent Funds		
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust	Community Service Scholarship Trust	Parks Development	Carnegie-Viersen-Van Gorp Trust		Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
3,643	20,922	38,494	48,504	170	2,381	493	18,193	34,923		74,722	111,944	2,208,039
-	-	-	-	-	-	-	-	-	-	-	-	6,317
-	-	-	-	-	-	-	-	-	-	-	-	595,291
-	-	-	-	-	-	-	-	-	-	-	-	155,981
-	-	11	7	-	-	-	4	10		-	33	3,387
3,643	20,922	38,505	48,511	170	2,381	493	18,197	34,933		74,722	111,977	2,969,099
-	-	-	-	-	-	-	-	-	-	-	-	6,317
-	1,450	-	-	-	79	-	1,120	-	-	-	-	35,365
-	-	-	-	-	600	-	-	-	-	-	-	8,968
-	-	-	-	-	-	-	-	-	-	-	-	600
-	-	-	-	-	-	-	-	-	-	-	-	595,291
-	1,450	-	-	-	679	-	1,120	-	-	-	-	646,541
-	-	-	-	-	-	-	-	-	-	40,000	100,000	140,000
3,643	19,472	38,505	48,511	170	1,702	493	17,077	34,933		34,722	11,977	2,182,558
3,643	19,472	38,505	48,511	170	1,702	493	17,077	34,933		74,722	111,977	2,322,558
3,643	20,922	38,505	48,511	170	2,381	493	18,197	34,933		74,722	111,977	2,969,099

## Schedule 2

## City of Pella, Iowa

## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

## Non-Major Other Governmental Funds

Year ended June 30, 2012

	Special Revenue Funds								
	Highpoint Tax Increment Financing	Road Use	Local option sales tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial	Pella Community Center
Revenues:									
Property tax	\$ -	-	-	548,428	-	-	-	-	-
Local option sales tax	-	-	954,070	-	-	-	-	-	-
Other City Taxes	-	-	-	2,705	-	-	-	-	-
Intergovernmental	-	981,899	396,902	-	-	-	-	8,030	-
Use of money and property	-	-	621	1,285	6	8	32	480	6
Charges for service	-	3,370	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	2,308	-	-	21,954	1,000
Total revenues	-	985,269	1,351,593	552,418	2,314	8	32	30,464	1,006
Expenditures:									
Operating:									
Public Safety	-	-	-	-	-	-	-	-	-
Public works	-	802,683	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	2,125	-	-	24,866	1,000
Total expenditures	-	802,683	-	-	2,125	-	-	24,866	1,000
Excess (deficiency) of revenues over (under) expenditures	-	182,586	1,351,593	552,418	189	8	32	5,598	6
Other financing sources (uses):									
Operating transfer in	-	440,800	-	-	-	-	-	-	-
Operating transfer (out)	-	(395,286)	(385,506)	(552,418)	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	45,514	(385,506)	(552,418)	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	-	228,100	966,087	-	189	8	32	5,598	6
Fund balances beginning of year	55	484,887	174,107	-	988	1,184	4,864	103,069	2,179
Fund balances end of year	\$ 55	712,987	1,140,194	-	1,177	1,192	4,896	108,667	2,185

See accompanying independent auditor's report.

## Schedule 2

Special Revenue Funds									Permanent Funds		Total Non-major Governmental Funds
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Develop- ment	Carnegie-Viersen Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	
-	-	-	-	-	-	-	-	-	-	-	548,428
-	-	-	-	-	-	-	-	-	-	-	954,070
-	-	-	-	-	-	-	-	-	-	-	2,705
-	-	-	10,000	-	-	-	-	-	-	-	1,396,831
7	27	269	143	1	601	1	109	248	1,700	785	6,329
-	-	-	-	-	-	-	-	-	-	-	3,370
-	2,093	-	-	-	2,750	-	13,799	-	-	-	43,904
7	2,120	269	10,143	1	3,351	1	13,908	248	1,700	785	2,955,637
-	-	-	2,295	-	-	-	-	-	-	-	2,295
-	-	-	-	-	-	-	-	-	-	-	802,683
1,948	2,563	-	-	675	1,649	260	14,474	-	-	-	49,560
1,948	2,563	-	2,295	675	1,649	260	14,474	-	-	-	854,538
(1,941)	(443)	269	7,848	(674)	1,702	(259)	(566)	248	1,700	785	2,101,099
-	-	-	-	-	-	-	-	-	-	-	440,800
-	-	-	-	-	-	-	-	-	-	-	(1,333,210)
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	(892,410)
(1,941)	(443)	269	7,848	(674)	1,702	(259)	(566)	248	1,700	785	1,208,689
5,584	19,915	38,236	40,663	844	-	752	17,643	34,685	73,022	111,192	1,113,869
3,643	19,472	38,505	48,511	170	1,702	493	17,077	34,933	74,722	111,977	2,322,558

City of Pella, Iowa  
Schedule of Revenues by Sources and Expenditures by Function  
All Governmental Funds  
For the Last Ten Years

	Modified Accrual Basis									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:										
Property tax	\$ 3,804,765	3,740,164	3,844,577	3,420,082	2,863,107	2,792,009	2,778,762	2,722,753	2,837,958	2,794,278
Tax increment financing revenue	1,500,001	1,367,004	944,634	1,616,632	2,022,553	1,867,289	1,675,567	1,672,240	1,444,657	1,069,118
Local option sales tax	954,070	937,924	806,475	1,180,851	875,711	984,332	1,000,702	813,900	851,409	908,915
Other city tax	452,189	417,145	381,025	400,928	516,806	499,706	394,645	366,366	367,213	384,797
Licenses and permits	66,381	50,908	41,960	29,859	18,266	21,369	27,320	30,033	20,427	14,558
Use of money and property	58,294	54,493	65,787	117,224	158,941	177,215	178,192	151,017	120,419	99,101
Intergovernmental	2,741,810	2,324,156	2,064,034	1,709,321	1,622,953	1,519,012	1,438,435	1,686,186	1,687,032	2,009,076
Special assessments	-	0	-	-	-	44,124	-	-	-	-
Charges for service	446,540	385,197	460,177	492,108	411,384	340,054	377,208	353,694	251,492	310,852
Miscellaneous	161,446	99,958	125,394	112,268	170,369	406,459	277,790	183,838	516,042	289,876
Total	<u>\$ 10,185,496</u>	<u>9,376,949</u>	<u>8,734,063</u>	<u>9,079,273</u>	<u>8,660,090</u>	<u>8,651,569</u>	<u>8,148,621</u>	<u>7,980,027</u>	<u>8,096,649</u>	<u>7,880,571</u>
Expenditures:										
Operating:										
Public safety	\$ 1,778,204	1,743,896	1,551,122	1,538,082	1,568,486	1,411,218	1,401,296	1,338,999	1,148,456	1,098,202
Public works	1,110,420	1,126,308	1,122,410	1,101,806	1,037,294	1,010,058	911,054	951,204	918,075	1,524,769
Culture and recreation	1,725,022	1,797,234	1,687,573	1,815,563	1,645,610	1,585,354	1,532,929	1,516,237	1,491,734	1,412,690
Community and economic development	579,804	670,113	479,241	504,894	463,659	541,534	506,050	601,903	262,752	86,560
General government	500,472	583,175	468,360	450,969	344,179	339,003	336,511	338,399	666,256	718,703
Debt service	957,882	977,618	3,719,956	1,372,483	5,853,291	1,706,474	4,092,597	1,795,402	1,743,005	3,881,721
Capital projects	2,048,265	2,666,864	631,463	1,255,727	3,142,731	2,217,218	1,446,816	668,144	3,205,314	367,781
Total	<u>\$ 8,700,069</u>	<u>9,565,208</u>	<u>9,660,125</u>	<u>8,039,524</u>	<u>14,055,250</u>	<u>8,810,859</u>	<u>10,227,253</u>	<u>7,210,288</u>	<u>9,435,592</u>	<u>9,090,426</u>

See accompanying independent auditor's report

## Schedule 4

**City of Pella, Iowa**  
**Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2012**

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Justice:			
Missing Children's Assistance	16.543	FY 12	\$ 1,174
Bulletproof Vest Partnership Program	16.607	FY 12	1,522
U.S. Department of Transportation:			
Airport Improvement Program	20.106	AIP-3-19-0112-09	174,886
Airport Improvement Program	20.106	AIP 3-19-0112-005P	7,919
Total direct			185,501
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	STP-U-5947(614)-7O-63	627,497
ARRA- Highway Planning and Construction	20.205	ESL-5947(613)-7S-63	14,093
			641,590
Iowa Department of Public Safety:			
Alcohol Impaired Driving Counter Measures	20.601	PAP 11-410,Task 58	2,526
Alcohol Impaired Driving Counter Measures	20.601	PAP 12-410,Task 58	8,215
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Clean Water State Revolving Fund	66.458	PDCW-1077	926,698
U.S. Department of Homeland Security:			
Iowa Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance-			
(Presidentially Declared Disasters)	97.036	FY 12	6,967
Total indirect			1,585,996
Total			\$ 1,771,497

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pella, Pella, Iowa and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**City of Pella, Iowa**



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**Van Maanen, Sietstra & Meyer, PC**

CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards**

To the Honorable Mayor and Members of the City Council  
City of Pella, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 27, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Pella's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pella's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Pella's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

December 27, 2012





**Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor and Members of the City Council City of Pella, Iowa:

**Compliance**

We have audited the City of Pella's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Pella's major federal programs for the year ended June 30, 2012. The City of Pella's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Pella's management. Our responsibility is to express an opinion on the City of Pella's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pella's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Pella's compliance with those requirements.

In our opinion, the City of Pella complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

The management of the City of Pella is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Pella's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

The City of Pella's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit the City of Pella's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

December 27, 2012

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office Management and Budget Circular A-133, Section .510a).
- (g) The major programs were as follows:
  - CFDA Number 66.458 – Clean Water State Revolving Fund
  - Clustered programs:
    - CFDA Number 20.205 – Highway Planning and Construction
    - CFDA Number 20.205 – ARRA – Highway Planning and Construction
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pella did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

No matters were noted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No material weaknesses in internal control over the major program were noted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget - Expenditures for the year ended June 30, 2012, exceeded the budget in the public safety, community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2012 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member Owner of Eagle Electric	Core drill	\$ 148
David Vander Horst, Council Member Owner of Digital Solutions, Inc.	Videotaping & IT Services	\$79,283

There were no related payables at June 30, 2012.

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with one of the Council Members does not appear to represent conflict of interest since the total transaction with the individual was less than \$1,500 during the fiscal year. The transaction with the council member which exceeded \$1,500 does not appear to be a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (7) Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

- (8) Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.